

WARREN COUNTY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS
TABLE OF CONTENTS
JUNE 30, 2002

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-12
DISTRICT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	13
STATEMENT OF ACTIVITIES	14
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS	
BALANCE SHEET-GOVERNMENTAL FUNDS	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS	16
PROPRIETARY FUND FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS-PROPRIETARY FUND	17
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUND	18
STATEMENT OF CASH FLOWS	19
FIDUCIARY FUNDS FINANCIAL STATEMENTS	
STATEMENT OF FIDUCIARY NET ASSETS-FIDUCIARY FUNDS	20
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS	21
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS	22-40
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND	41
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND	42
BUDGETARY COMPARISON SCHEDULE FOR THE CAPITAL PROJECTS FUND	43

OTHER SUPPLEMENTARY INFORMATION

BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS	44
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- NONMAJOR GOVERNMENTAL FUNDS	45
BALANCE SHEET GOVERNMENTAL FUND-CAPITAL PROJECT FUNDS	46
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND-CAPITAL PROJECT FUNDS	47
BALANCE SHEET GOVERNMENTAL FUNDS-CAPITAL PROJECT FUNDS CONSTRUCTION FUNDS	48
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND-CAPITAL PROJECT FUND-CONSTRUCTION FUNDS	49
COMBINING BALANCE SHEET-SCHOOL ACTIVITY FUNDS	50
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO SCHOOL ACTIVITY FUNDS	51
COMBINING BALANCE SHEET-HIGH SCHOOL ACTIVITY FUNDS	52
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO HIGH SCHOOL ACTIVITY FUNDS	53
GREENWOOD HIGH SCHOOL ACTIVITY FUNDS — SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND DUE TO	54-55
WARREN CENTRAL HIGH SCHOOL ACTIVITY FUNDS — SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND DUE TO	56-57
WARREN EAST HIGH SCHOOL ACTIVITY FUNDS — SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND DUE TO	58-59

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	60
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	61
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	62-63
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	64-65

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	66
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MANAGEMENT LETTER POINTS

INDEPENDENT AUDITOR'S TRANSMITTAL LETTER FOR MANAGEMENT LETTER POINTS	67
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MANAGEMENT LETTER POINTS	68-70
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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the accompanying general purpose financial statements of the Warren County School District as of and for the year then ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Warren County School District as of June 30, 2002, and the results of its operations and the cash flows of its enterprise fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A and Note M, the Warren County School District adopted Governmental Accounting Standards Board Statement No. 34, *The Financial Reporting Model*, which has altered the format and content of the general purpose financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2002, on our consideration of the Warren County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of the Warren County School District. Additionally, the required supplementary information and other supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Shelton & Associates, LLP
October 25, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

The discussion and analysis of Warren County Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to review the school district's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* issued in June 1999.

Financial Highlights

- In total, net assets increased \$4,801,788. Net assets of governmental activities increased by \$4,852,474, while net assets of business-type activity decreased by \$50,686. These variances are primarily the result of new building construction within the district, and the recording of sick leave obligations.
- General revenues accounted for \$56,621,124 in revenue or 87 percent of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$8,124,107 or 13% of total revenues of \$64,745,231.
- Total assets of governmental activities increased by \$4,852,474. Capital assets increased by \$2,828,062 due to construction projects while cash increased by \$1,935,223.
- The School District had \$60,280,300 in expenses related to governmental activities; only \$8,124,107, of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations), and sale of construction bonds were adequate to provide these programs.
- Construction continued during the year with additions of Briarwood Elementary and North Warren Elementary totaling \$9,724,289. Construction also began on additions to Lost River Elementary, Rockfield Elementary, Warren Elementary, Rich Pond Elementary, and offices for Support Services. These additions totaled \$1,797,043 of Construction in Progress at June 30, 2002.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consist of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warren County Public School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds with all other non-major funds presented in total in one column. The major funds for the Warren County School District are the general fund, special revenue fund, capital projects fund and the occupational tax office fund.

Reporting the School District as a Whole

One of the most important questions asked about the school district is "how did we do financially during 2002?" The **Statement of Net Assets** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial position of the school district has improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as a commercial entities do. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other factors.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

In the **Statement of Net Assets** and the **Statements of Activities**, the school district is divided into two distinct kinds of activities:

Government Activities-most of the school district's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and other activities.

Business-type Activities-these services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The school district's food service operation is reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the school district's major funds begins on page 15. Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

Governmental Funds-most of the school district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds-proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

(Table 1)						
	<u>Governmental</u>		<u>Net Assets</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Business-Type</u>			
	<u>2002</u>	<u>2001</u>	<u>Activities</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>
Assets						
Current and Other Assets	\$ 15,800,711	\$13,776,299	\$ 847,498	\$ 729,383	\$ 16,648,209	\$ 14,505,682
Capital Assets	<u>86,214,225</u>	<u>3,386,163</u>	<u>4,563,084</u>	<u>4,731,885</u>	<u>90,777,309</u>	<u>88,118,048</u>
Total Assets	<u>\$102,014,936</u>	<u>\$97,162,462</u>	<u>\$5,410,582</u>	<u>\$5,461,268</u>	<u>\$107,425,518</u>	<u>\$102,623,730</u>
Liabilities						
Long-Term Liabilities	\$ 56,104,310	\$47,292,114	\$ -	\$ -	\$ 56,104,310	\$ 47,292,114
Other Liabilities	<u>1,167,850</u>	<u>1,528,067</u>	<u>2,923</u>	<u>150</u>	<u>1,170,773</u>	<u>1,528,217</u>
Total Liabilities	<u>\$ 57,272,160</u>	<u>\$48,820,181</u>	<u>\$ 2,923</u>	<u>\$ 150</u>	<u>\$ 57,275,083</u>	<u>\$ 48,820,331</u>
Net Assets						
Invested in Capital Assets net of Debt	\$ 34,424,225	\$36,606,163	\$4,563,084	\$4,731,885	\$ 38,987,309	\$ 41,338,048
Restricted	7,260,285	5,837,118	-	-	7,260,285	5,837,118
Unrestriced(Deficit)	<u>3,058,266</u>	<u>5,899,000</u>	<u>844,575</u>	<u>729,233</u>	<u>3,902,841</u>	<u>6,628,233</u>
Total Net Assets	<u>\$ 44,742,776</u>	<u>\$48,342,281</u>	<u>\$5,407,659</u>	<u>\$5,461,118</u>	<u>\$ 50,150,435</u>	<u>\$ 53,803,399</u>

Total Assets increased \$4,852,474. Total Net Assets decreased by \$3,599,505 due to cost associated with opening of a new school and reduced state funding. Total Liabilities increased \$8,451,979 due to bond sale for construction and the recording of sick-leave payable in the amount of \$4,252,252 this fiscal year.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

(Table 2)						
Net Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Program Revenues:						
Charges for Services	\$ 4,282	\$ 5,307	\$1,956,115	\$2,280,642	\$ 1,960,397	\$ 2,285,949
Operating Grants/Contribution	6,069,629	6,569,505	2,551,124	1,934,976	8,620,753	8,504,481
Capital Grants/Contribution	2,050,196	2,354,488	-	-	2,050,196	2,354,488
General Revenues:						
Taxes	20,381,892	19,666,501	-	-	20,381,892	19,666,501
State Aid-formula grants	27,860,686	27,767,996	-	-	27,860,686	27,767,996
Investment Earnings	360,009	1,060,072	11,490	14,326	371,499	1,074,398
Flexible Funding Refund	250,270	204,558	-	-	250,270	204,558
Proceeds from Issuance of Bonds	7,511,357	3,379,672	-	-	7,511,357	3,379,672
Miscellaneous	362,107	490,601	-	-	362,107	490,601
Special Items:						
Gain(Loss) on sale of equipment	(111,720)	5,190	(8,046)	-	(119,766)	5,190
Loss Compensation	<u>6,523</u>	<u>53,518</u>	<u>-</u>	<u>-</u>	<u>6,523</u>	<u>53,518</u>
Total Revenue and Transfers	<u>64,745,231</u>	<u>61,557,408</u>	<u>4,510,683</u>	<u>4,229,944</u>	<u>69,255,914</u>	<u>65,787,352</u>
Program Expenses						
Instruction	38,523,386	32,661,444	-	-	38,523,386	32,661,444
Support Services:						
Student	1,281,749	1,183,602	-	-	1,281,749	1,183,602
Instructional Staff	2,113,903	2,023,972	-	-	2,113,903	2,023,972
District Administration	611,922	497,459	-	-	611,922	497,459
School Administration	2,535,639	2,406,098	-	-	2,535,639	2,406,098
Business	546,926	633,908	-	-	546,926	633,908
Facility	5,862,336	5,610,753	-	-	5,862,336	5,610,753
Operations/Maintenance						
Student Transportation	5,129,983	4,385,821	-	-	5,129,983	4,385,821
Central Office	583,843	407,490	-	-	583,843	407,490
Non-Instructional	807,871	650,892	-	-	807,871	650,892
Facility Acquisition/Construction	-	-	-	-	-	-
Other	-	185	-	-	-	185
Interest on Long-Term Debt	2,282,742	2,327,305	-	-	2,282,742	2,327,305
Depreciation-Unallocated	-	4,121,182	-	-	-	4,121,182
Food Service	<u>-</u>	<u>-</u>	<u>4,564,142</u>	<u>4,258,316</u>	<u>4,564,142</u>	<u>4,258,316</u>
Total Expense and Transfers	<u>60,280,300</u>	<u>56,910,111</u>	<u>4,564,142</u>	<u>4,258,316</u>	<u>64,844,442</u>	<u>61,168,427</u>

Increase (Decrease) in Net
Assets

\$ 4,464,931 \$ 4,647,297 (\$ 53,459) (\$ 28,372) \$ 4,411,472 \$ 4,618,925

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

Governmental Activities

Instruction comprises 64% of governmental program expenses. Support services expenses make up 32% of government expenses. The remaining unallocated expense for interest accounts for the remaining 4% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities

	Total Cost of Services <u>2002</u>	Total Cost of Services <u>2001</u>	Net Cost of Services <u>2002</u>	Net Cost of Services <u>2001</u>
Instruction	\$ 38,523,386	\$ 32,661,444	\$ 34,126,857	\$ 27,606,010
Support Services	19,474,172	17,799,995	17,796,790	16,280,617
Other	-	185	-	185
Facility	-	-	(1,435,364)	(1,676,458)
Acquisition/Construction				
Interest on Long-Term Debt	2,282,742	2,327,305	1,667,910	1,649,275
Depreciation-Unallocated	<u>-</u>	<u>4,121,182</u>	<u>-</u>	<u>4,121,182</u>
Total Expenses	<u>\$ 60,280,300</u>	<u>\$ 56,910,111</u>	<u>\$ 52,156,193</u>	<u>\$ 47,980,811</u>

Business-Type Activities

The only business-type activity is the food service operation. This program had revenues of \$4,510,683. and expense of \$4,564,142 for fiscal year 2002. Of the revenues, \$1,956,115 was charges for services, \$2,551,124 was from State and Federal grants, \$11,490 from investment earnings and the remaining (\$8,046) was loss on sale of equipment. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of this activity. If it becomes necessary, the school district will increase the charges for this activity.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

The School District's Funds

Information about the school district's major funds start on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$60,211,956 and expenditures and other financing uses of \$56,994,281. Net changes in fund balances for the year was most significant in General Fund (\$1,594,208), Special Revenue Fund \$1,672,670, and Capital Projects Fund \$3,150,307.

The decrease in General Fund was due to expenditures for a new elementary school and reduction in state funding. The increase in Special Revenue Fund was due to the transfer of a specific program (KETS) to this Fund. The Capital Projects Fund increase was due to the sale of bonds during the year of \$7,511,357 to finance the additions to four elementary schools.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

A variance comparison is presented between the final budgeted amounts and the actual (GAAP Basis) amounts. For the General Fund revenues were budgeted at \$44,716,538 with actual amounts of \$40,986,256 and transfers from the Occupational Tax Office of \$4,225,000 for a total actual of \$45,211,256. Budgeted expenditures of \$50,539,366 compare with actual expenditures of \$46,790,975, a difference of \$3,748,391. Of this difference, \$3,329,328 was the budgeted contingency expense.

This is the first year that the Occupational Tax Office has been shown as a component part of the Warren County Public School's annual financial report.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002 the school district had \$90,777,309 invested in land, buildings, equipment and construction in progress, \$86,214,22 in governmental activities. Table 4 shows fiscal year 2002 balances compared to 2001.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 2,512,600	\$ 2,512,600	\$ -	\$ -	\$ 2,512,600	\$ 2,512,600
Buildings and Improvements	74,742,439	66,931,771	3,986,859	4,094,283	78,729,298	71,026,054
Technology	2,467,209	2,013,273	67,972	37,698	2,535,181	2,050,971
Vehicles	3,908,414	3,027,423	-	-	3,908,414	3,027,423
Equipment	786,519	867,096	508,254	599,904	1,294,773	1,467,000
Construction in Progress	<u>1,797,043</u>	<u>8,034,000</u>	<u>-</u>	<u>-</u>	<u>1,797,043</u>	<u>8,034,000</u>
Total	<u>\$86,214,224</u>	<u>\$83,386,163</u>	<u>\$4,563,085</u>	<u>\$4,731,885</u>	<u>\$90,777,309</u>	<u>\$88,118,048</u>

There were large increases in Building due to the completion of Briarwood Elementary and the addition to North Warren Elementary. These assets were completed, removed from construction in progress, and placed into the Building section of the asset listing.

Renovations/Additions continue at Lost River Elementary, Rich Pond Elementary, Rockfield Elementary, Warren Elementary and Support Services Offices. These unfinished project costs remain in construction in progress at June 30, 2002.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

Debt

At June 30, 2002 the school district had \$51,790,000 in bonds outstanding, of this amount \$11,781,153 are to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$3,140,000 is due within one year.

At June 30, 2001 the school district had \$46,780,000 in bonds outstanding, of this amount \$12,490,900 were to be paid from KSFCC funding. The increase during the 2002 fiscal year is due to a \$7,685,000 bond to fund the additions to 4 elementary schools.

District Challenges for the Future

Warren County Public School District's financial status has declined in the last fiscal year. This decline was the result of two major factors, continued student growth without increased state funding due to the growth, and a decrease in state funding. Because of these issues, the long-term financial picture could prove very problematic, and is the most pressing issue for our District.

The school district has experienced an annual growth in student enrollment of 70-170 students per year, for the last five years. The school district has prepared for an increase in enrollment by building new schools and renovating and adding to existing schools. These new facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund. These costs along with the need to add additional buildings in the next few years will create more challenges for the school district.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the school district. However at the time of this writing the State Department of Education has indicated that no additional funds are available statewide for student growth. Our property tax base continues to grow; however our school district, like all Kentucky school districts, is limited to a 4% annual growth in property tax revenue on existing property.

The second factor facing our school district is that of adequate state funding. At the time of this writing, the State of Kentucky has not adopted a budget for the biennium of 2002-2004. Our school district is being funded under an emergency-funding plan handled by the Governor. Our district has been informed by the State Department of Education that \$887,474 of SEEK funding our district qualifies for in fiscal year 2002-2003 will not be funded due to lack of state funds. We have also been informed of a possible 4-5% additional SEEK reduction before the end of fiscal 2002-2003. The emergency-funding plan our state is operating under requires all school districts to provide a 2.7% increase in salaries to all certified personnel for the 2002-2003 fiscal year.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2002

The state funding reductions under the emergency-funding plan has placed our district in a difficult financial position. Without a state budget that gives guidance as to future state funding, it places our School District in the position of having to react to funding cuts and adjustments, instead of having the ability to plan for them in an organized manner.

The future of our school district is difficult to predict. The financial situation is one of uncertainty at this time, until the state budget is adopted, the school district is unable to predict what effect, if any, the decrease in state revenues will have on our district's financial operations.

With careful planning and monitoring of our finances, Warren County Public Schools goal is to continue to provide a quality education for our students and a secure financial future for the school district.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional information contact Willie McElroy, Treasurer at Warren County Public Schools, 303 Lovers Lane, P.O. Box 51810, Bowling Green, KY 42102-6810 or email at wmcelroy@warren.k12.ky.us

DISTRICT-WIDE FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2002

See accompanying notes

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

PROPRIETARY FUND FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2002

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002

See accompanying notes

FIDUCIARY FUNDS FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2002

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

See accompanying notes

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Warren County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Warren County School District (the District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Warren County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, and etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Warren County School District Finance Corporation – The Warren County, Kentucky, Board of Education has established the Warren County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Warren County Board of Education also comprise the Corporation's Board of Directors.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local

governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain significant changes in the Statement include the following:

- For the first time the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the District's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

BASIS OF PRESENTATION

District-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole. They include all funds of the reporting entity except for the fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The district-wide statements are prepared using the economic measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expense and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and

charges paid by the recipient of the goods or services offered by the program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

In the district-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses)

in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset use.

The funds of the financial reporting entity are described below:

I. Governmental Funds

Major Funds

- A. The General Fund is the primary operating fund of the District and is always classified as a major fund per GASB Statement No. 34. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. Reservations have been placed on the fund balance for outstanding encumbrances, allocation to the schools' site based decision making councils and accrued sick leave (Note F).
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial assistance programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

C. Capital Project Funds are used to account for financial resources restricted for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The District includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan. At June 30, 2002, this fund is now accounted for in the Special Revenue Fund per the discretion of the Kentucky Department of Education.
4. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

D. Occupational Tax Office Fund is used to account for the occupational license tax collected from salaries, wages, commissions, and other compensation earned by persons residing within the Warren County School District and the net profits of all businesses, occupations, and professions located in the Warren County School District from activities conducted within Warren County, Kentucky.

Nonmajor Funds

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal, interest, and related costs on the general long-term debt of the District, including the payment of interest on general obligation notes payable, as required by Kentucky law.

The Permanent Fund accounts for assets held by the District pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

II. Proprietary Fund

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The District's only enterprise fund is the School Food Service Fund. The School Food Service Fund is used to account for the financial transactions related to the food service operations of the District. This reporting includes the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA).

III. Fiduciary Funds

Agency Funds

Agency funds account for assets held by the District in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

- A. The School Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.
- B. The Bond Proceeds Trust Fund is used to account for the proceeds and issuance costs of bond issues. The balance in the account is restricted for debt service related expenditures.

Private-Purpose Trust Funds

The Private-Purpose Trust Fund can only be used to purchase textbooks for needy students. These purchases are made from interest received from a fixed investment accounted for in the permanent fund.

CASH AND CASH EQUIVALENTS

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

INVESTMENTS

Investments are carried at cost which approximates market value.

ACCOUNTS RECEIVABLE

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the statements are net of allowance for doubtful accounts.

INVENTORIES

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Enterprise Fund. Inventory consists of donated and purchased food held for resale and are expensed when used. Purchased food is valued at cost and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

CAPITAL ASSETS

The accounting treatment over property and equipment (fixed assets) depends on whether they are reported in the government-wide or fund financial statements.

District-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the governmental fund. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

District-Wide Statements

All long-term debt to be repaid from governmental resources are reported as liabilities in the district-wide statements. The long-term debt consists primarily of capital lease obligations and compensated absences.

Fund Financial Statements

Long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. There are no long-term debt obligations recorded in the proprietary fund as this fund is not responsible for paying the debt.

COMPENSATED ABSENCES

The District's policies regarding sick leave permits employees to accumulate earned but unused sick leave.

The entire compensated absence liability is reported on the district-wide financial statements. The current portion of this debt is estimated based on employees who have twenty-seven years of service as of June 30, 2002 and is calculated at thirty percent of their total accumulated sick leave.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. The noncurrent portion of the liability is not reported. No liability is accrued in the proprietary fund.

EQUITY CLASSIFICATIONS

District-Wide Statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

ENCUMBRANCE ACCOUNTING

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements. Fund balances of the respective funds have been reserved for outstanding encumbrances at June 30, 2002.

REVENUES — EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is not recognized until there is an enforceable legal claim. This legal claim does not arise until the taxes become delinquent, which is the fiscal year after the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

DEFERRED REVENUE

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2002-2003 school year have been classified as deferred revenues. Likewise, all awards requested as a result of 2001-2002 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount. This results in a zero fund balance in the Special Revenue Fund.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

PROPERTY TAXES

Property taxes collected are reported as revenues in the fund for which they were levied. Property taxes are based on property valuations on January 1. The tax rate is generally agreed to by the Board in the following September, and contingent upon state approval, the tax will be due in November or December of the same year.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PRINCIPLES

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when the obligation is incurred (GAAP).

INTERFUND RECEIVABLES AND PAYABLES

Each fund is a distinct fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. During the year the General Fund receives and disburses funds that relate to other funds or activities, such as the School Food Service Fund, the School Activity Fund, SEEK Capital Outlay Fund, Debt Service fund, Technology Fund, Special Revenue Fund, and the School Construction Fund. Transfers are then made between the various funds to more properly reflect the nature of the transactions. At June 30, 2002, substantially all such transfers had been made and no significant interfund payables or receivables existed.

CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year 2002, the District has implemented early adoption of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement was issued in June 1999 and represents the most significant change in the history of state and local governmental financial reporting (including for Kentucky local school districts).

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for the GASB 34 conversion.

NOTE B – CASH AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trusts with the Districts' third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The District, upon approval by the Board of Education, invests funds in time deposits and certificates of deposit with the depository or other financial institutions based upon prevailing interest rates.

At June 30, 2002 the carrying amount of the District's deposits was \$5,977,718. Of the total cash balance, \$200,000 was covered by Federal depository insurance, with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name.

Cash accounts of the School Construction Fund, Bond Proceeds Fund, and the Debt Service Fund are held in trust by local financial institutions with normally insignificant amounts in non-trust accounts.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally

recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Technology Fund (accounted for within the Special Revenue Fund), Special Revenue Fund, Debt Service Fund, Bond Proceeds Fund, School Construction Fund, School Food Service Fund, and School Activity Funds.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 7/01/01	Additions	Disposals	Balance at 6/30/02
Governmental Activities				
Land	\$ 2,512,600	\$ -	\$ -	\$ 2,512,600
Infrastructure	1,358,477	-	-	1,358,477
Buildings	93,560,763	9,724,289	-	103,285,052
Technology Equipment	9,190,908	1,585,876	909,283	9,867,501
Vehicles	8,080,855	1,605,147	399,771	9,286,231
Other Machinery & Equipment	1,860,385	170,258	272,610	1,758,033
Construction Work in Process	8,034,000	-	6,236,957	1,797,043
Total at Historical Cost	124,597,988	<u>\$ 13,085,570</u>	<u>\$ 7,818,621</u>	129,864,937
Accumulated Depreciation	<u>(41,211,824)</u>			<u>(43,650,712)</u>
Governmental Activities Capital Assets, net	<u>\$ 83,386,164</u>			<u>\$ 86,214,225</u>
Business-Type Activities				
Buildings	\$ 5,371,217	\$ -	\$ -	\$ 5,371,217
Technology Equipment	59,280	48,192	-	107,472
Other Machinery & Equipment	2,110,017	30,452	19,349	2,121,120
Totals at Historical Cost	7,540,514	<u>\$ 78,644</u>	<u>\$ 19,349</u>	7,599,809
Accumulated Depreciation	<u>(2,808,629)</u>			<u>(3,036,725)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,731,885</u>			<u>\$ 4,563,084</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,977,008
Support Services:	
Student	7,944
Instructional staff	6,509
District administration	5,521
School administration	314
Business	15,804
Facility operations and maintenance	128,870
Student transportation	673,757
Central office	11,526
Non-instructional	<u>68,738</u>
 Total Depreciation Expense	 <u><u>\$ 3,895,991</u></u>

NOTE D – COMMITMENTS FOR SCHOOL CONSTRUCTION AND RELATED BONDS

A bond was issued in April of 2002 in the amount of \$7.695 million to finance the cost of the additions to Lost River Elementary, Rich Pond Elementary, Rockfield Elementary, and Warren Elementary. As of June 30, 2002, approximately \$5.6 million remained to be expended on the project.

During the fiscal year, the District approved construction of a new 4,000 square foot office to house the Maintenance Operations, School Nurses, and Archives Personnel. The cost for this project is \$518,930 with a scheduled completion date at the end of October, 2002.

Subsequent to year-end, in August 2002, the Board approved construction of 9,188 square feet of additional office and service space at the Transportation Department. Existing HVAC and service equipment is being upgraded or replaced. This project has an estimated cost of \$1,484,905 to be expended during the 2003 fiscal year.

The District has committed a maximum of \$185,000 to assist with the construction of a dome for the TC Cherry swimming pool that will be utilized by the Warren County School District's swim team. Operational supplements are still under discussion.

NOTE E – LEASE OBLIGATIONS

CAPITAL LEASES

The amount shown in the accompanying district-wide financial statements as lease obligations represents the District's future obligations to make lease payments relating to school building revenue bonds issued by the Warren County Fiscal court (the Fiscal Court) and the Warren County School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The General Fund, SEEK Capital Outlay Fund, and the FSPK Building Fund are obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court or the Finance Corporation to construct school facilities and the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District must generally make sinking fund payments by the fifteenth day of the month prior to scheduled bond and interest payment dates. The District is also obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

Following is a schedule of lease obligations existing at June 30, 2002:

LEASE AGREEMENT DATED	BOND ISSUE NUMBER	INTEREST RATES		FINAL LEASE PAYMENT DATE
		OF RELATED BOND	ISSUE	
March 1, 1994	XXII	5.10%-5.25%		March 1, 2004
August 1, 1995	XXIII	3.50%-5.20%		August 1, 2008
December 1, 1995	XXIV	4.00%-5.125%		Dec. 1, 2015
June 1, 1996	XXV	5.10%-5.60%		June 1, 2016
February 1, 1998	XXVI	3.80%-4.50%		April 1, 2011
June 1, 1998	XXVII	3.95%-4.75%		June 1, 2018
February 1, 1999	XXVIII	4.00%-4.60%		February 1, 2019
April 1, 2000	XXIX	4.75%-5.50%		April 1, 2020
February 1, 2001	XXX	4.00%-4.75%		February 1, 2021
April 1, 2002	XXXI	2.125%-4.70%		April 1, 2022

Following are aggregate lease obligations existing at June 30, 2002:

<u>Year Ending June 30,</u>	<u>Warren County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total Debt Principal</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2003	\$ 1,866,681	\$ 1,867,170	\$ 1,273,319	\$ 551,971	\$ 3,140,000
2004	1,944,215	1,823,846	1,335,785	492,419	3,280,000
2005	2,037,004	1,737,816	1,397,996	426,576	3,435,000
2006	2,129,243	1,645,695	1,460,757	356,708	3,590,000
2007	2,225,643	1,547,512	1,534,357	282,243	3,760,000
Thereafter	<u>29,806,061</u>	<u>10,443,556</u>	<u>4,778,939</u>	<u>805,340</u>	<u>34,585,000</u>
	<u>\$ 40,008,847</u>	<u>\$ 19,065,595</u>	<u>\$ 11,781,153</u>	<u>\$ 2,915,257</u>	<u>\$ 51,790,000</u>

A summary of lease principal balances is as follows:

	Balance at <u>July 1, 2001</u>	<u>Issued</u>	<u>Retired</u>	Balance at <u>June 30, 2002</u>
District	\$ 34,289,100	\$ 7,240,946	\$ 1,507,559	\$ 40,022,487
Commission	<u>12,490,900</u>	<u>454,054</u>	<u>1,177,441</u>	<u>11,767,513</u>
	<u>\$46,780,000</u>	<u>\$ 7,695,000</u>	<u>\$ 2,685,000</u>	<u>\$51,790,000</u>

All assets acquired under capital leases are included in the district-wide financial statements within "depreciated capital assets" and, accordingly, are depreciated. On the governmental fund financial statements, payments on capital lease obligations are recognized as expenditures.

OPERATING LEASES

The District maintains a leasing arrangement through the Kentucky Interlocal School Transportation Association for school buses used by the District. The lease has a term of one year and is renewable annually at the option of the District. The lease is accounted for as an operating lease and is expended in the General Fund.

NOTE F – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2002, this amount totaled \$726,486 for those certified employees with twenty-seven or more years of experience and is reflected as a current liability on the district-wide financial statements. Management has estimated that all of this amount will eventually become an expenditure of the District. Management has estimated that the long-term obligation will be approximately \$3.5 million.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$158,057. This is the amount that is anticipated to be funded with current year's economic financial resources.

NOTE G – RETIREMENT PLANS

KENTUCKY TEACHERS' RETIREMENT:

All certified employees are covered under the Teachers' Retirement System of the State of Kentucky (KTRS). KTRS, a cost-sharing, multiple-employer defined benefit plan provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employees retire before reaching age fifty-five, unless the employee has twenty-seven or more years of participation in the

plan. KTRS provides retirement benefits, as well as for death and disability benefits to plan members.

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. Contribution requirements of the plan members and the District are established by Kentucky Revised Statutes and the KTRS Board of Trustees.

The payroll for employees covered under KTRS was \$31,294,984. For the year ended June 30, 2002, the Commonwealth contributed \$3,949,167 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ended June 30, 2002 were \$152,041 which represent those employees covered by federal programs.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 6.41% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2002 were \$701,545, equal to the required contribution for that year.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE H — CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for

designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

The District is also exposed to various risks of loss related to torts, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) will be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J – TRANSFER OF FUNDS

Interfund transfers are eliminated in the governmental and business-type activities columns of the district-wide statement of net assets. On the fund financial statements, the following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	Debt Service	Debt Service	\$ 996,100
Building Fund	Debt Service	Debt Service	2,179,369
Technology	Special Revenue	Transfer Funds	1,115,740
General Fund	Special Revenue	Matching	133,761
Occupational Tax Office	General Fund	Tax Revenues	<u>4,225,000</u>
Total transfers in			8,649,970
Permanent Fund	Private-purpose		
	Trust Fund	Interest Earnings	<u>350</u>
Total transfers out			<u>\$ 8,650,320</u>

NOTE K – LITIGATION

The District is not involved in nor aware of any litigation as of June 30, 2002.

NOTE L – RECONCILIATION OF FINANCIAL STATEMENTS TO ANNUAL FINANCIAL REPORT FILED WITH THE KENTUCKY DEPARTMENT OF EDUCATION

The District does not recognize the cash held in the Debt Service Fund for unrepresented bond and interest coupons, nor does the District recognize the debt service payments of the Commission as revenues and expenditures. Additionally, activities of the Expendable and Non-Expendable Trust Funds are not recognized in the District's Annual Financial Report filed with the Kentucky Department of Education. The corresponding amounts have been included in the district-wide financial statements in order for the statements to conform to generally accepted accounting principles.

NOTE M – INITIAL ADOPTION OF ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

Effective July 1, 2001 the District adopted early implementation of GASB 34. Prior to July 1, 2001, the financial statements were presented in accordance with a modified cash basis of accounting. The effect of the initial adoption is shown as a restatement of beginning fund balance as shown below.

The District reached a settlement agreement in March of 2002 regarding the distribution of gross receipts utility tax. The settlement of \$565,000 is reflected as a prior period adjustment on the schedule below.

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Fund Balance, June 30, 2001 as previously reported	\$ 11,782,154	\$ 729,233
GASB 34 Adjustments	29,060,691	4,731,885
Prior Period Adjustment	<u>(565,000)</u>	<u>-</u>
Adjusted Net Assets July 1, 2001 revised	<u>\$ 40,277,845</u>	<u>\$ 5,461,118</u>

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2002

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

WARREN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS-CAPITAL PROJECT FUNDS
JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR YEAR ENDED JUNE 30, 2001

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CONSTRUCTION FUNDS
JUNE 30, 2002

CONSTRUCTION FUNDS REVENUES/EXPENDITURES

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CONSTRUCTION FUNDS
JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
FIDUCIARY FUND — ACTIVITY AND TRUST FUNDS
JUNE 30, 2001

FIDUCIARY REVENUES

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
SCHOOL ACTIVITY FUNDS (AGENCY FUND)
JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO
SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO
HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
GREENWOOD HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
WARREN CENTRAL HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2002

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

SCHEDULE OF EXPENDITURES

WARREN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE A — BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Warren County School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B — FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2002, the District had donated food commodities valued at \$58,533 in inventory.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the general purpose financial statements of the Warren County School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*.

Compliance

As part of obtaining reasonable assurance about whether the Warren County School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract – State Audit Requirements*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Warren County School District in a separate letter dated October 25, 2002.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shelton & Associates, LLP
October 25, 2002

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

Compliance

We have audited the compliance of the Warren County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Warren County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Warren County School District's management. Our responsibility is to express an opinion on the Warren County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Warren County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Warren County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Warren County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Warren County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Warren County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Warren County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were identified during the audit.
4. No reportable conditions were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Warren County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the Warren County School District.
7. The programs tested as major programs included:
 - a. Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559)
 - b. Migrant Education (CFDA 84.011)
 - c. Idea B Preschool/Idea Basic Cluster (CFDA 84.027 & 84.173)
 - d. ROTC (CFDA 12.UK)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Warren County School District did not qualify to be a low-risk auditee.

MANAGEMENT LETTER POINTS

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County Board of Education
Bowling Green, Kentucky

In planning and performing our audit of the general purpose financial statements of the Warren County School District for the year ended June 30, 2002, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Shelton & Associates, LLP
October 25, 2002

WARREN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
JUNE 30, 2002

Proprietary Fund

I. Condition – Per physical inventory records kept on file, there were several instances at various schools where the beginning inventory did not agree with the prior month's ending inventory.

Criteria – The internal control of reconciling ending inventory balances to beginning inventory balances should be in place in order to assure that all usage and spoilage is properly accounted for, and proper reporting results.

Cause – Food Service employees were not properly trained in using the Excel software when record keeping of inventory was converted from a manual system to a computer system.

Recommendation – Provide Excel and inventory training to the cafeteria personnel and have personnel at the Central Office review and reconcile the amounts reported on a monthly basis.

Response – Management agrees with the finding and the recommendation will be adopted.

II. Condition – There were no explanations on file as to why the "Difference Between Potential Cash and Actual" was greater than \$5.00 on the "Daily Count and Cash Reconciliation" report.

Criteria – Per the District's policy as adopted in the "AccuClaim Manual", any cash overages and shortages in excess of \$5.00 are to be documented and explained.

Cause – Food service employees were not properly trained.

Recommendation – Provide training to Food Service personnel of what the proper procedures are to document cash discrepancies and have Central Office personnel review the cash reports to ensure the procedure is properly implemented and followed.

Response – Management agrees with the finding and the recommendation will be adopted.

Fiduciary Funds – School Activity Funds

I. Condition – Deposits for one school were made only once a month.

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires a weekly deposit even if the deposit amount is less than \$100.

Cause – School employees were not aware they were in violation of the requirement.

Effect –Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation –Educate all school personnel about the policy and enforce it.

Response – Management agrees with the finding and the recommendation will be adopted.

II. Condition – The Teacher's Multiple Receipt Form is not properly completed in accordance *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book)

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires each student's name and amount paid be listed separately.

Cause – School employees were not properly trained.

Effect –Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation –Educate all school personnel about the policy and monitor that it properly implemented.

Response – Management agrees with the finding and the recommendation will be adopted.

III. Condition –Money collected by teachers not given to treasurer on a daily basis in relation to fundraisers and book fairs.

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) states that funds are to be deposited on a daily basis. Amounts less than \$100 can be deposited weekly.

Cause – School employees were not aware they were in violation of the requirement.

Effect – Noncompliance with A *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation – Educate all school personnel about the policy and monitor that it is enforced.

Response – Management agrees with the finding and the recommendation will be adopted.